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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 000221

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SUBJECT: BULGARIA: PM RATIONALIZES RUSSIAN PRESSURE ON
ENERGY PROJECTS

Classified By: Ambassador Nancy McEldowney for reasons
1.4 (b) and (d)

¶1. (C) Summary: In a move that prompted scathing ridicule by local media, Bulgarian Prime Minister Stanishev rushed to Moscow less than 24 hours after the April 24-25 regional energy summit in Sofia (which Putin refused to attend). While in Moscow, Stanishev signed yet another "secret" agreement on South Stream and is rumored to have discussed possible Russian government financing for the Belene nuclear project. In a subsequent discussion with Ambassador, Stanishev was subdued but straightforward. He described the Russians as clearly holding the upper hand but defended his actions as preserving Bulgaria's best interests. On the four specific contested points of transparency (publishing the South Stream agreements), eliminating intermediaries, securing compensation for the January cut-off, and clarifying that South Stream represents a second pipeline through Bulgaria (and not simply additional volumes through existing infrastructure), Stanishev came home empty handed. End Summary.

¶2. (C) The Prime Minister skated past media criticism of his Moscow trip (including reports of a frosty Putin reception and other small slights) and claimed that Bulgaria had stuck to its guns on the South Stream cooperation agreement. He had initialed it and the Bulgarian Energy Holding would sign it in about two weeks after the Bulgargaz board reviewed and approved the text (which he characterized as a procedural step). Stanishev stressed that during Putin's January 2008 visit to Sofia, the Bulgarians had achieved a good deal on South Stream, with 50-50 ownership for that part of the pipeline traversing Bulgaria, and had set a benchmark that other countries (Hungary, Greece, but not Serbia) had followed. He had argued then and continues to insist now on Russian commitments on volumes (70bcm in transit) and transit fees. It was only by securing these elements during his April 27 trip that he had initialed the deal. He admitted that discussions with Putin had been a game of nerves. (Another member of the Bulgarian delegation who has frequently participated in bilateral meetings told us confidentially that he had found Putin both more relaxed and self confident and also more despotic than previously.)

¶3. (C) Ambassador made the case that the agreement be made public; Stanishev noted "we will do our best," while conceding the Russians are unenthusiastic. When the Ambassador probed further, he slid past whether there would be new gas or additional volumes for South Stream and the sources of financing of the pipeline crossing Bulgaria. Taking up Bulgaria's push for compensation for the January gas cutoff, he blandly stated that Gazprom has the stronger legal position; as for eliminating intermediaries, that was an uphill battle.

¶4. (C) On Nabucco, after initially tepid remarks, he reverted to the standard line supporting the project, stressing that both Nabucco and South Stream are Bulgarian priorities. He agreed with the Ambassador that the key is the Turkey-Azerbaijan relationship, but skipped over the point that all partners had to weigh in with Ankara and Baku and not simply look to the United States to hammer out a deal. Stanishev suggested that Nabucco partners Greece and Turkey are focusing more on the Greece-Turkey-Italy interconnector. He was pleased that the EU has committed 200 million euros for Nabucco, but took a swipe at the EU for its lengthy decision-making on financing and support. He stressed Bulgaria is interested in interconnectors, and especially on expanding its domestic the storage facility at Chiren.

¶5. (C) Stanishev briefly took up the Belene nuclear reactor, acknowledging that financing issues are very tough. Bulgaria wants commercial not Russian government financing and is encouraging discussion between the Bulgarian electricity company, RWE and Russia. Bulgaria would not agree to "any conditions" for financing -- a clear reference to Russian pressure, though he quickly added that given international economic conditions, all major projects face difficulties in raising capital -- a hint that Belene is not on schedule. He took on board the point that American company Direct Petroleum had promising prospects in a gas find in central Bulgaria but that the Bulgarian bureaucracy was moving sluggishly on partnership issues between the Bulgarian Energy Holding and the U.S. firm, forcing the firm to look at other, including Russian, partners.

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